



The Mortgage Borrower's Guide

A MORTGAGE usually consists of funds provided to a borrower by a lender to allow the borrower to buy a home or to refinance an existing mortgage. The mortgage is an agreement by which the borrower uses the property as security for a loan. The property, usually a personal residence, may become the property of the lender in the event the loan is not repaid.

There are hundreds of mortgage brokers, mortgage lenders, banks, savings banks, savings and loan associations, and credit unions in Washington that loan money or help people find loans. The great majority of these businesses and individuals are honest and reputable. As in most professions, however, there are a few of these businesses and individuals that attempt to use unfair and deceptive practices to take advantage of consumers. The purpose of this document is to arm you, the consumer, with information you can use to protect yourself from the unscrupulous mortgage lenders and mortgage brokers you may encounter.

The Washington Department of Financial Institutions regulates mortgage brokers and mortgage lenders through licensure, reviewing their books and records, investigating complaints and, when necessary, taking disciplinary action. Not all mortgage lenders or mortgage brokers are licensed and regulated by the state, however. For individuals shopping for a mortgage, the best defense against illegal or unethical practices is to be an informed borrower.

Do research. There are different mortgage offerings. Find out which works best for you. Learn the language used by mortgage lenders and mortgage brokers. Ask lots of questions and if you are not getting straight answers, take your business to someone who will work to help you understand the mortgage products they sell. **Do not sign anything until you are comfortable with and understand what you are buying.**

Shop around. Mortgages are offered by many companies licensed to do business in Washington. You choose with whom you want to do business. Do business only with a licensed and bonded mortgage broker. Call the Department of Financial Institutions to see if a broker is licensed. Compare the annual percentage rate (APR) offered from mortgage broker to mortgage broker. Ask whether the loan has a prepayment penalty. Even though Washington has a usury law, there are no limits on how much a first mortgage can cost you. An unscrupulous mortgage lender or mortgage broker can charge you as much as they can convince you to pay without violating the law, so **be sure you know how much you are paying.**

Beware of advance fee loan scams. One way a deceptive or unscrupulous lender or broker will take advantage of you, especially through advertising or telemarketing, is to require you to send them money prior to taking your application for a mortgage. This is known as an advance fee loan scam. In such a scam, you will never hear from the lender again. **Be sure you know who you're doing business with before you give them money.**

Disclosures. You will have to fill out an application for the loan you want. Within three days of giving your application information to a mortgage broker or mortgage lender, they must provide you with written documents giving you most of the information you'll need to know about the loan. Study these documents carefully. Don't just sign them without making certain they

accurately portray what you thought you were buying. ***If disclosures are not provided, do not do business with that mortgage lender or mortgage broker, sign no papers, and call off the deal!***

The Disclosures:

- ◆ A Good Faith Estimate (GFE) of closing costs provides the mortgage lender's or mortgage broker's "best guess" of the costs you'll face on the loan in question. If the costs change, the mortgage lender or mortgage broker must give you a new Good Faith Estimate at least three days before you sign closing papers. If a licensed mortgage lender or mortgage broker fails to provide a new disclosure statement after any changes regarding the loan, he or she could be forced to give back part or all of any increased costs.
- ◆ A Truth in Lending Disclosure Statement (TIL) details the cost of the credit you'll be undertaking. You should be shown the annual percentage rate (APR) that provides an overview of all the costs of your loan, including costs you will pay at closing.
- ◆ If the loan you apply for is an adjustable rate mortgage (ARM) or variable rate mortgage, you must be given a booklet about ARMs and specific disclosures on how the ARM will adjust.

If you do business with a licensed mortgage broker, you should also receive:

- ◆ A rate lock disclosure form that will inform you whether you've locked your loan interest rate and if so, under what conditions it is locked.
- ◆ A disclosure statement explaining that money given to the mortgage broker for payment of services such as appraisal and credit reports will be held safely in a trust account. ***This is your money and must be returned if it is not used. You should never have to pay more than the actual costs of the services. The mortgage broker cannot keep any of this money; it is a crime for him or her to do so.***
- ◆ A disclosure that you have the right to transfer your appraisal(s) and credit report to another mortgage broker or lender if you wish. You must tell the mortgage broker in writing and the transfer must then be made within five days. If you did not pay for these reports, you have no right to them and cannot transfer them.

If, before final signing, you choose to cancel the loan, the mortgage broker can only charge you for his or her efforts in certain rare situations. This charge cannot exceed \$300.

Dirty Tricks!

As noted above, most mortgage brokers and mortgage lenders are honest people attempting to provide you with quality service at a reasonable profit. However, a few mortgage lenders and mortgage brokers may attempt to use unfair and deceptive practices to take advantage of uninformed consumers. To confuse consumers or to lead a person to buy a mortgage he or she might otherwise avoid, some unscrupulous people will try to mislead you. Here are some lines and phrases to watch out for. They should sound an alert.

- ◆ I'm not licensed as a mortgage broker, but that's O.K. " It is not O.K. Mortgage brokers in Washington must be licensed.

- ◆ "You don't need those disclosures, I've told you what the deal is." This is a sign the broker does not want you to know what the facts are. Read all of your documents. Ask questions.
- ◆ If you ask what the loan amount is and are told about "The amount financed," the broker is trying to deceive you.
- ◆ "This is a special loan, not available anywhere else." There are no magic products. Most lenders offer loan products that are very similar. If one broker can't find a product to fit your need, another can. Like shopping for shoes, you can simply go to another store.

Additional tips:

- ◆ Beware of telemarketers or mailings soliciting loans from companies that you can't find or contact. Although they may be legitimate, you didn't ask them to contact you, so why did they? Can they deliver what they promise? Can you find them if things are not as you expected?
- ◆ Trust only **signed and dated** promises.
- ◆ Like any other businesspersons, mortgage lenders and mortgage brokers are in business to make a profit. Treat your dealings with a broker or lender as business transactions. Do not think that because a broker or lender is charming and friendly that the deal is anything but business.
- ◆ Mortgage brokers have office locations. You should know where their office is and how to find it. Sometimes, individuals planning deceptive behavior will want to do business at your home to try and win your trust. If you feel ill at ease, consider conducting business at the broker's office.
- ◆ Trust your instincts. If something doesn't feel right, it's probably a good idea to back off. If your spouse or partner has a funny feeling about a deal or a person, trust that feeling. Trust only written, signed documents. Do not trust words.
- ◆ If you have questions about a mortgage offering or feel someone is trying to take advantage of you, call the Department of Financial Institutions in Olympia at (360) 902-8703.

For Internet Users

Washington has several consumer protection laws specific to mortgages. There are also federal laws covering the lending industry and individuals who bring lenders and borrowers together. Our state's laws, implemented and enforced by the Department of Financial Institutions, are: the Mortgage Broker Practices Act (RCW 19.146, WAC 208-660), the Escrow Agent Registration Act (RCW 18.44, WAC 208-680), and the Consumer Loan Act (RCW 31.04, WAC 208-620). These are available for detailed review on the Internet at

<http://www.dfi.wa.gov>

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